



September 21, 2009

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

RE: Docket No. R-1364 – Comments on Regulation Z Interim Final Rule on Implementation of the
CARD Act – Section 106

BY EMAIL ONLY

Dear Secretary Johnson:

On behalf of the member credit unions of the Credit Union Association of Rhode Island (“Association”), please accept this letter of comment on the interim final rule on the implementation of the *Credit Accountability, Responsibility and Disclosure (“CARD”) Act*. The Association is the local state credit union trade association serving 19 federal and state chartered credit unions that are federally-insured and cooperatively owned by 318,000 consumers as members in the state of Rhode Island, and operating as part of the Credit Union National Association (CUNA).

The Association appreciates the opportunity to provide input on such an important topic. This issue is critical to the operation of credit unions and Rhode Island credit unions continue to act expeditiously to fully comply with the new interim rules. Please note that compliance with the provisions as they relate to a 21-day advance notification on all open-ended lending contracts with members is extremely disruptive. The Rhode Island credit union community supports the intent of Congress to curb abusive practices in the credit card industry. However, the negative impact of this interim rule disproportionately impacts credit union members.

I) Impact on Credit Unions

Credit unions remain extremely concerned about the overwhelming difficulties they are experiencing in trying to comply with the 21-day rule as it applies to open-end credit other than credit cards. At issue is the application of the new provisions to multi-featured, open-end credit plans and the use of consolidated periodic statements for both savings and loan products by credit unions. This approach to lending is common in credit unions as it is both member friendly and compliant with Regulation Z. It provides members with a greater array of choices to help them better manage their funds and streamline disclosures.

Credit union members often have multiple loans under one open-end lending agreement and receive one periodic statement listing all due dates chosen by the member, such as auto, home equity loan, signature, and boat. Credit union members have repeatedly requested this practice. It is not preferable to many members to receive separate periodic statements for each of these loans every month. Changing to this practice under the rule will create confusion, increase credit union data processing, mailing, and staffing costs dramatically and will force credit unions to pass these added costs on to their borrowers.

Credit unions have also developed a successful alternative, very short term, open-end payday-type lending product, often referred to as "StretchPay," that limits annual percentage rates to reasonable rates. Credit unions offer this product as a means to help members through difficult economic periods, to encourage them to use more mainstream financial products and services, and to steer them away from unscrupulous payday lenders who trap these borrowers into never-ending, expensive debt cycles. A specific payback period, often within one month, is required for each small dollar advance.

The 21-day rule is virtually impossible to implement with this open-end lending product. With the added 45-day change-in-terms requirement to reset the billing cycle for each advance, such products could be eliminated. The Association requests the Federal Reserve to exclude this type of product from compliance with the CARD Act in light of the overriding public policy underlying this product in serving the underserved.

II) 21-Day Rule

Changing the system by requiring credit unions to mail statements 21 days prior to any due date in order to treat a payment as late has caused major disruptions in credit union operations ultimately hurting the members who have come to rely on, trust and request the current system. When payment schedules occur more often than monthly, credit unions do not find a reasonable solution that meets the intent of the rule. Changes affect the relationship between credit unions and members when members are inconvenienced or ultimately charged increased costs associated with implementing a new program such as change in contacts, additional paperwork, retraining staff, postage, etc. The reputation of credit unions before their members is directly and adversely impacted.

Credit unions are also experiencing an extremely difficult time complying within such a short period of time after the passage of the Act. Many small credit unions have one to three employees and such a burdensome change can be quite difficult. Even large credit unions with ample resources are finding roadblocks to compliance such as the fact that the data processors who print the statements cannot timely implement the changes.

Date changes printed on the statements and the mailing dates are only two challenges credit unions face. Some additional challenges presenting even greater difficulties include the changing of many current due dates which presents complicated problems associated with automatic payroll deductions and weekly or bi-weekly payments. Credit unions that use automated processes that impose late fees, report the payment as late, and take collection actions further complicate compliance with the rule.

III) Interpretation of "Short Period of Time"

The Association greatly appreciates that the Federal Reserve is permitting a "short period of time" during which credit unions may make needed changes. A reasonable interpretation of "short period of time" is the time necessary to make needed changes to be in compliance, assuming a good faith effort on behalf of the credit union. The Association recognizes that this time period will vary amongst credit unions and urges the Federal Reserve to clarify that this interpretation is reasonable or at least not take any action to undermine this interpretation.

IV) Interpretation of "Treating a Payment as Late"

The CARD Act and interim final rule prohibit a creditor from treating a payment as late for any purpose if it does not comply with the 21-day requirement. The rule indicates that this prohibition includes imposing a late payment fee, an increase in the annual percentage rate, or reporting the late payment to a credit bureau. It is not clear if this list is exclusive or if it may include other activities.

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The Association urges the Federal Reserve to clarify that the rule does not prohibit other actions that are not punitive such as routine collection activities which may actually benefit consumers by providing them with notice of the need to make payments before additional finance charges are imposed. Many credit unions still use financial counseling practices that include direct contact such as by telephone to discuss repayment. Freezing a line of credit or withdrawing funds from another account, if otherwise permitted, should also be permitted under the rule. These practices should not be prohibited and remain unclear under the interim rule.

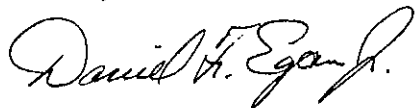
V) Electronic Delivery of Statements

The Association urges the Federal Reserve to clarify compliance with the 21-day requirement when periodic statements are delivered electronically. When adopting the electronic disclosure rules in 2007, the Federal Reserve elected not to require a separate email to consumers. The Association urges the Federal Reserve to take a similar stance in relation to the new requirements.

To better assist credit unions in complying with the new rule, the Association respectfully requests that the Federal Reserve provide alternative provisions that include multiple payments in a single month; exempt products such as StretchPay; and clarify "short period of time", late payment treatment and the electronic delivery of statements.

Thank you for your consideration of these issues.

Sincerely,



Daniel F. Egan, Jr.
President

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